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**EXCISE**

## 17.1

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[REDACTED] Leaders have assured the United States they will crack down on Chinese exports of prison-made goods. b1

Preparing for the worst. Beijing hopes such concessions will assure renewal of MFN, [REDACTED]

[REDACTED] Beijing is, for example, examining ways to expand export markets and access to technology in Europe and Asia. Beijing's strategy also includes warnings that revoking MFN would hurt others as much as, if not more than, China. [REDACTED] b1  
[REDACTED] were MFN canceled, the one to two million workers displaced could return to farming; US consumers, and the Hong Kong traders and foreign investors who profit from China's exports to the United States, would be the victims of China's loss of MFN. Revocation of MFN, [REDACTED] would hurt most the reform-oriented sectors of China.

Getting emotional. For domestic political reasons, Beijing's rebuttal of US criticism has been sharpening, and officials publicly deny recent gestures are concessions to retain MFN. On May 9 a "visibly angered" foreign ministry spokesman denounced "external pressure" over MFN, according to press reports. China will "never accept" conditions on MFN, he said, and losing it under such circumstances is "nothing to be afraid of."

[REDACTED] the MFN "card," once played, would be useless: it could be played only once, and the United States would lose not only access to the China market but the opportunity for dialogue on important issues. [REDACTED] b1

[REDACTED] (CClarke)

(SECRET/NOFORN/NOCONTRACT/ORCON/EXDIS)

## II. CHINA/USSR: PARTIAL BOUNDARY AGREEMENT TO BE SIGNED (5/15)

During the May 15-19 talks in Moscow between General Secretary Jiang Zemin and President Gorbachev, the foreign ministers are expected to sign an agreement on the section of the Sino-Soviet border east of Mongolia; the accord reportedly does not resolve the status of Heixiazhi Island, opposite Khabarovsk. The agreement is intended to signal continued improvement in Sino-Soviet relations, but it also reflects the difficulty in reaching agreement on more strategic sections that remain disputed.

Progress in the east . . . . The boundary agreement, initialed by the vice foreign ministers at the fifth round of border talks held in Moscow in April, represents the progress

of boundary-delimitation teams working since 1987. Dispute over islands in the Ussuri River border area had led to military clashes in 1969. Progress in resolving that dispute came only when Gorbachev in 1986 acknowledged publicly that the boundary should be the center of the deepest navigable channel in the Amur and Ussuri Rivers, not the Chinese shore.

. . . up to a point. By October 1988, with the aid of joint aerial surveys, the two sides reported agreement on boundary alignment among the numerous Amur and Ussuri islands. From 1988 until now, Chinese and Soviet attention has been on the Pamir Mountains boundary north of Afghanistan.

In the east, the Soviets remain unbending in their control of Heixiazi Island, which sits opposite Khabarovsk, is headquarters of the USSR'S Far East military district, and is within easy range of the Amur bridge of the Trans-Siberian railroad.

Settling for less. Desire for further concrete evidence of improving bilateral relations between China and the USSR may have encouraged a formal agreement to what had already been settled. Both sides vow to continue to work on resolving the rest of the boundary, though Moscow now has to factor in the concerns of the affected Soviet republics, all of which had representatives at the last round of border talks.

The Pamir problem. An 1884 protocol to the 1881 Treaty of St. Petersburg made final the western boundary as far as Uzbek Pass but made ambiguous statements about how the line should continue to the south. The de facto boundary from the pass to Afghanistan, the USSR claims, is an 1894 troop-disengagement line along the crest of the Sarikol Mountains. In 1989, a Chinese vice foreign minister suggested that China, which has never accepted that line, would be willing to relinquish its Pamir claim in return for Heixiazi Island. Involvement of the individual Soviet republics, however, will make any USSR territorial trade even more unlikely. (BThomas) (INR/GE)  
(CONFIDENTIAL)

III. CHINA: TUG-OF-WAR BETWEEN BEIJING AND PROVINCES (5/11)

SECRET/NOFORN/NOCONTRACT/ORCON/EXDIS

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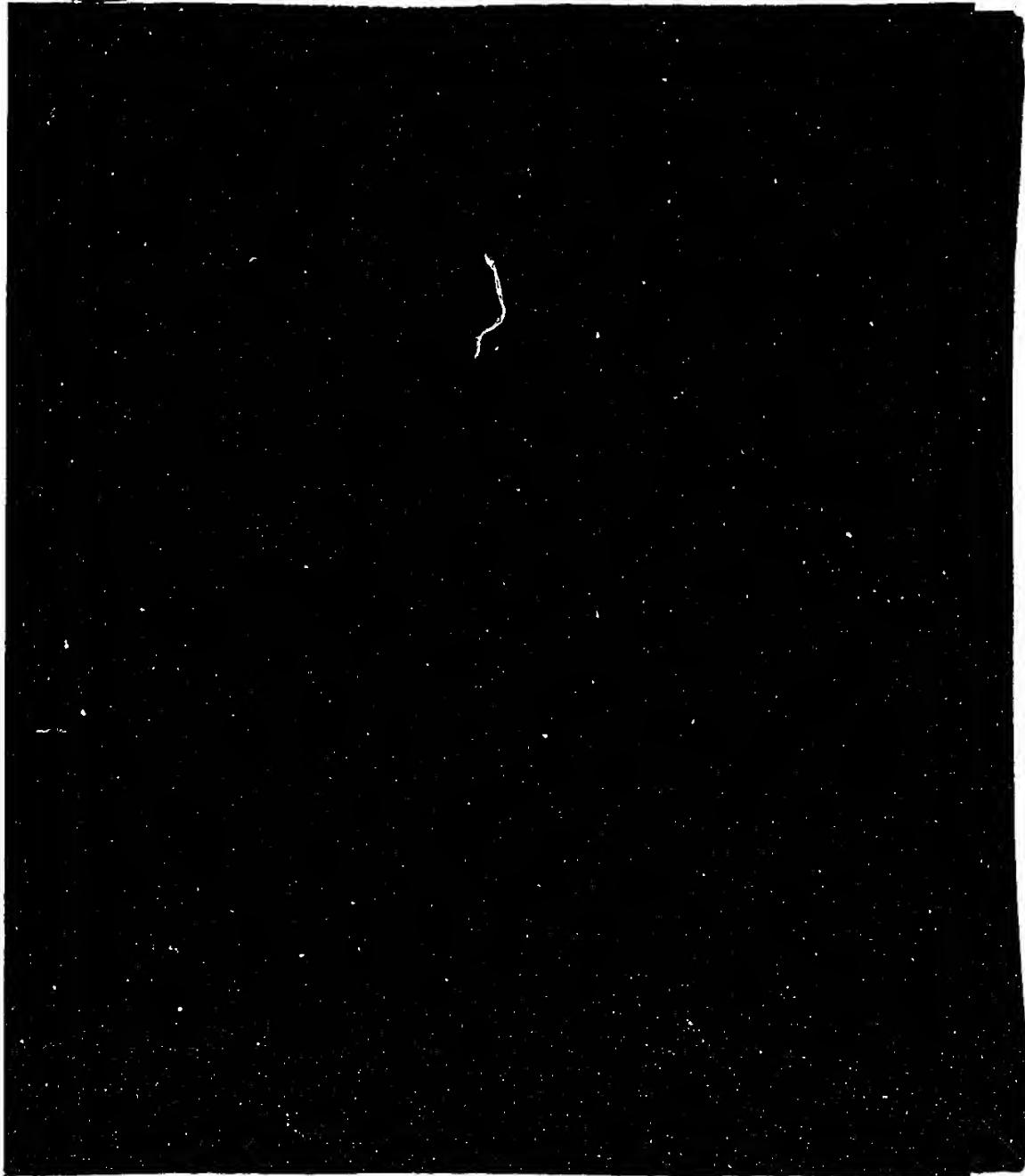
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IV. PRC/JAPAN/EUROPE: THE SEARCH FOR US STAND-INS (5/18)



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V. CHINA: REFORM, REVOLUTION, AND THE CRISIS OF FAITH 5/22)

Two years after Tiananmen, China remains plagued by a serious crisis of faith. Conservative prescriptions to rebuild a commitment to shared goals and values largely hark back to discredited themes of the past, and reformers have been unable to articulate a new vision of China's future that transcends narrow self-interest. Under the shadow of Tiananmen, neither has called for opening the political process to build commitment through meaningful participation. In the short term, China's leaders will fall back on simple nationalism as a unifying and legitimating force.

The roots of China's current moral disarray go back to the late 1960s, when Mao Zedong's Cultural Revolution destroyed the social ethos inculcated after the communists took power. During the 1950s the party worked hard--and largely successfully--to expand people's horizons from their village or factory to encompass national, and even international, concerns, and to elicit subordination of personal and immediate interests to the goal of building a strong and wealthy China.

Mao destroys his creation. Despite this success, Mao believed he saw a resurgence of parochialism and opportunism, derived this time not from traditional bases of family connections and wealth but from an emerging official class in the party and state bureaucracies. To restore revolutionary "purity," he launched an attack on these institutions and the attitudes arising from them. The Cultural Revolution resulted in enormous social and political dislocation, but its long-term effect was to destroy the public's new and still fragile faith in the party and its message. Even before Mao's death, cynicism and pursuit of naked self-interest had replaced commitment to higher goals.

Deng's cultural revolution. Shortly after his return to power in 1978, Deng Xiaoping termed his reform program a "second revolution." Though economic and political accomplishments of the reforms have been mixed, their impact on public morality has indeed been revolutionary. Especially during the mid-1980s, Beijing touted such slogans as "to get rich is glorious" and played down the risks to public morale of modernization and exposure to new ideas from the outside.

Conservatives periodically protested that China was losing its moral compass in a sea of self-aggrandizement, but each campaign for a "socialist spiritual civilization" to undergird growing materialism met with increasing skepticism and derision.

No prescription. Now, hard-liners seek only to bring back tired slogans and ideas of the Maoist past, while reformers have been put on the defensive and have offered little beyond the thought of wealth trickling down to help others along. Neither has proposed fostering commitment through the introduction of meaningful political participation. Meanwhile, half-completed economic reforms have exacerbated the corruption and nepotism of Deng's "second revolution," increasing public anger and skepticism.

China's current leaders, discredited by their role in the Tiananmen crackdown, almost certainly cannot succeed in building a new public ethos. It will fall to their successors to construct a social compact and a compelling new vision of China's future. In the meantime the temptation will be strong to fall back on simplistic nationalism--even traditional xenophobia--as a unifying force and source of leadership legitimacy, especially in times of crisis or uncertainty.  
(CClarke) (CONFIDENTIAL)